

ANNUAL REPORT 1969

HYTEC ELECTRONICS LIMITED

Directors Dr. John Bossons
Ronald K. Fraser
John A. Galko
Dr. Harry Pullan
Victor M. Seabrook
Harry Shlesinger
Dr. John Simmons
Dr. Andrew J. Szonyi

Officers John A. Galko, President
Andrew J. Szonyi, Executive Vice-President and Treasurer
Victor M. Seabrook, Q.C., Secretary

Bankers The Toronto-Dominion Bank

Solicitors MacKinnon, McTaggart

Transfer Agents Guaranty Trust Company of Canada, Toronto

Auditors Gardner, McDonald & Co.

Offices and Plant Facilities 240 Adelaide Street West, Toronto

REPORT TO THE SHAREHOLDERS OF HYTEC ELECTRONICS LIMITED

Your directors are pleased to present this annual report of Hytec Electronics Limited together with the financial statements covering the period ended December 31, 1969.

Inasmuch as this was your company's first year of operations, it was of necessity, one in which the greatest effort was directed towards the establishment of Hytec within the North American electronic industry and the organization of the company's productive resources. Viewed within this context, your directors believe the company has made significant progress during the year and has prepared a sound base for the rapid business development expected in the months ahead.

Hytec was first established as a private firm in November of 1968. The following year it was converted into a public company with an attendant public offering of common shares which raised \$337,500 for the treasury. Since this financing was completed in January, 1970, the company did not enjoy the benefits of our improved capital position during the year under review.

Hytec is engaged in the design, development and manufacture of "thick film" hybrid integrated micro-electronic circuitry and components. As this indicates, your company operates in a highly specialized field applying the most advanced electronic technology to circuit design and manufacture. In fact it is actively engaged in the production of a new generation of electronic "building blocks" surpassing by far the transistor and the conventional electronic circuit.

These electronic building blocks or circuit modules because of their specialized design, may perform several circuit functions, as opposed to a single function, when incorporated into complex electronic systems.

Thick film hybrid components are being used by an increasing number of large companies who are designing their electronic systems to take advantage of this new technology. Applications for hybrid technology are extensive including use in analogue and digital computer systems, telephone and microwave communication systems and in industrial control and data processing equipment.

Hytec is moving into these markets principally through the design and manufacture of prototypes made to customers' specifications for their evaluation prior to production orders. Beyond this, your company is carrying out a vigorous research program to develop its own proprietary new products. Within this context shareholders will be pleased to know that Hytec has

recently received final approval from Pyrotenax (Canada) Limited, a subsidiary of British Insulated Callendar's Cables for the production of an industrial control system which was completely designed, developed and manufactured by your company. In addition a number of prototypes are currently being evaluated by other U.S. and Canadian companies which, your management confidently hopes, will lead to substantial production orders in the months ahead.

In February, 1970 the company concluded an agreement with Cantronics Limited of Toronto and Montreal, a well regarded marketing organization in the electronics field, to act as Hytec's exclusive marketing agent in Ontario, Quebec and the Maritime Provinces.

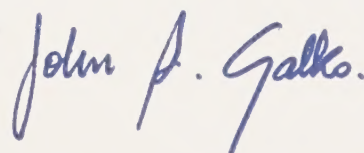
To cope with the anticipated level of production demand, the company has recently expanded its facilities by 75% through the leasing of additional space within the building currently occupied. These new facilities have provided the company with larger manufacturing and development areas as well as with increased office space.

Last month Hytec conducted a successful technical symposium on thick-film hybrid technology. In attendance were senior technical and management representatives from a number of major domestic and foreign corporations. This exchange of ideas at the symposium should help to stimulate the development of new and varied applications of hybrid technology within the industrial sector.

Hytec Electronics Limited operates within an industry which offers outstanding growth and earnings potential. Your directors are confident that the company has both the human and technical resources to excel in this field and look forward to a year of intense productive activity which will justify the trust shareholders have placed in it. Management attaches great hopes to the prototype circuits which are currently being tested by customers and which should result in substantial production orders.

Sincere thanks are extended to all officers and employees for their contribution to the company's progress. It is expected that in the year ahead their efforts will continue to further the growth of Hytec Electronics Limited.

On behalf of the Board,



June 11, 1970.

John A. Galko, *President*

HYTEC ELECTRONICS LIMITED

Balance Sheet

As at December 31, 1969

Assets

Current Assets

Cash on hand	\$	30.00	
Sundry receivable		913.20	
Inventory of raw materials at lower of cost or market		2,473.78	
Prepaid expenses and advances		<u>925.08</u>	\$ 4,342.06

Fixed Assets

Furniture and fixtures, at cost	\$	2,155.81	
Machinery and equipment, at cost		30,753.68	
Automobile, at cost		<u>1,995.00</u>	
	\$	<u>34,904.49</u>	
Less: Accumulated depreciation		<u>8,128.06</u>	26,776.43

Other Assets

Leasehold improvements less amounts amortized	\$	810.48	
Deferred development and start up costs (note 1)		75,642.36	
Organization expense, at cost		625.00	
Unfiled patent application, at cost (note 2)		8,606.00	
Deferred financing expenses, at cost (note 3)		<u>15,817.27</u>	101,501.11
			<u>\$132,619.60</u>

Liabilities and Shareholders' Equity

Current Liabilities

Bank loan	\$	17,500.00	
Bank overdraft		8,511.57	
Accounts payable and accrued charges		38,005.03	
Note payable to director, 7%		<u>1,500.00</u>	\$ 65,516.60

Shareholders' Equity

Capital Stock (note 3)			
Authorized			
1,000,000 common shares without par value			
aggregate consideration not to exceed		<u>\$1,000,000.00</u>	
Issued and fully paid			
250,000 common shares	\$	65,463.00	
Contributed surplus—proceeds from sale of share purchase warrants (note 4)		<u>1,640.00</u>	67,103.00
			<u>\$132,619.60</u>

Approved on behalf of the Board: JOHN A. GALKO, *Director* ANDREW J. SZONYI, *Director*

The accompanying notes form an integral part of these financial statements.

Statement of Deferred Development and Start Up Costs

For the year ended December 31, 1969

Salaries	\$ 39,469.54
Travel and promotion	6,464.46
Interest on notes payable and bank loan	3,189.84
Outside services	4,221.88
Audit and legal	2,589.96
Stationery and supplies	1,780.23
Operating supplies	3,809.65
Rent	2,700.00
Telephone and telegraph	1,399.26
Repairs and maintenance	996.26
Insurance	1,023.05
Moving expense	820.93
Office and general	297.46
Advertising	178.52
Light and power	254.52
Business taxes	620.60
Vacation pay and payroll taxes	1,613.32
Bank charges	49.30
Equipment rental	217.40
Depreciation	8,128.06
Amortization of leasehold improvements	202.62
Loss on sale of fixed assets	400.00
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	\$ 80,426.86
Less: Revenue	4,784.50
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Balance, December 31, 1969	\$ 75,642.36

The accompanying notes form an integral part of these financial statements.

Auditors' Report to the Shareholders

We have examined the balance sheet of Hytec Electronics Limited as at December 31, 1969 and the statements of deferred development and start up costs and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles.

Toronto, Ontario
May 14, 1970.

Gardner, McDonald & Co.
Chartered Accountants.

HYTEC ELECTRONICS LIMITED

Statement of Source and Application of Funds

December 31, 1969

Source of Funds

Sale of common shares	\$ 65,463.00
Sale of share purchase warrants	1,640.00
Revenue	4,784.50
	<u>\$ 71,887.50</u>

Application of Funds

Development and start up costs	\$ 80,426.86
<i>Less: Depreciation and leasehold improvements amortized not requiring an outlay of funds</i>	<u>8,330.68</u>
	\$ 72,096.18

Fixed assets	34,904.49
Leasehold improvements	1,013.10
Unfiled patent application	8,606.00
Organization expense	625.00
Financing expenses	15,817.27
	<u>\$133,062.04</u>

Working Capital Deficiency December 31, 1969	<u>\$ 61,174.54</u>
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The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements

December 31, 1969

1. Deferred Development and Start up Costs

The cost of developing the company's products and preparation for production has been deferred as at December 31, 1969. These costs will be amortized over the next five fiscal years commencing on January 1, 1970.

2. Patent Rights Pending

To December 31, 1969, \$8,606.00 was expended in making certain disclosures. Should the company apply for patent rights thereon, an additional expenditure of approximately \$3,000.00 would be required.

3. Capital Stock

By supplementary letters patent dated November 17, 1969, the company became a public company, cancelled the authorized preference shares and increased the authorized common shares to 1,000,000 shares without par value.

During the year ended December 31, 1969, 250,000 shares were issued for a cash consideration of \$65,463.00.

Subsequent to December 31, 1969, the company received \$337,500.00 for the issuance of 125,000

shares in the capital stock of the company. Expenses in connection with this issue amounted to \$15,817.27 and are included in these financial statements.

4. Contributed Surplus

During the year ended December 31, 1969, the company received \$1,640.00 for the issuance of 164,000 share purchase warrants whereby the warrant holders may exercise their right to purchase 164,000 shares (one share for each warrant held) at a price of \$2.99 per share exercisable at any time prior to January 1, 1975.

5. Incentive Stock Option Plan

An incentive stock option plan was entered into during the year whereby 35,000 shares in the capital stock of the company were set aside. To date, options have been granted on 28,000 shares at \$3.00 per share.

6. Statutory Information

Remuneration paid to directors, officers and senior employees amounted to \$35,086.63 for the year ended December 31, 1969.

